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TO RUEHC/SECSTATE WASHDC PRIORITY 5511
INFO RUEHJA/AMEMBASSY JAKARTA PRIORITY 5020
RUEHPB/AMEMBASSY PORT MORESBY PRIORITY 1626
RUEHSV/AMEMBASSY SUVA PRIORITY 1179
RUEHKO/AMEMBASSY TOKYO PRIORITY 2332
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RUEHBN/AMCONSUL MELBOURNE PRIORITY 2992
RUEHBD/AMCONSUL PERTH PRIORITY 1622
RUEHDN/AMCONSUL SYDNEY PRIORITY 0936
RHHMUNA/CDR USPACOM HONOLULU HI PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RUEHC/DEPT OF LABOR WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 CANBERRA 001244

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E.O. 12958: DECL: 08/13/2016
TAGS: [PGOV](#) [ECON](#) [AS](#)
SUBJECT: PM HOWARD STEPS OUT TOWARD THE 2007 ELECTIONS

REF: A. CANBERRA 1161

[1](#)B. CANBERRA 1172

Classified By: CDA Michael P. Owens. Reasons: 1.4(b) and (d).

SUMMARY

[1](#)1. (C/NF) With his declaration July 31 that he would seek a fifth term in office effectively ending months of speculation about his intentions (ref A), Prime Minister John Howard can now focus on the national elections that must be held in [1](#)2007. A renowned morning power-walker, Howard has good reason to stride confidently into the year-long run-up to the election, given a strong economy and polls showing him with a double digit lead over his challenger, Australian Labor Party leader Kim Beazley. Australian elections are almost invariably near-run affairs, however, and Howard certainly realizes that next year's contest will be no exception.

MIXED ECONOMIC NEWS

[1](#)2. (U) As Parliament reconvened after a two-month winter break, the overall economic news for the Howard Government was excellent: an OECD report declared that Australia's GDP per capita has now surpassed all G7 nations except the United States; and the national unemployment rate has dropped to a 30-year low of 4.8 percent. However, the news was not all good for the government. The Reserve Bank raised interest rates to 6 percent, the second quarter point increase since May, and petrol prices continued to climb. A liter of gasoline now costs about A\$1.47 (roughly U.S. \$4.50 a gallon).

[1](#)3. (C/NF) The problem for the Government in these "pocketbook" numbers is that Howard promised to keep interest rates low during his last election campaign in 2004, and Australians now have a higher debt load than at any time in their history. Upticks in mortgage rates hit particularly hard because the vast majority of Australian homeowners hold adjustable rate mortgages. Members of Parliament and their

staff confirmed during a series of calls by Poloffs last week that higher gas prices were an issue that was beginning to worry their electorates, particularly those in rural areas. As a result, the Howard Government spent the week scrambling to find a response to the higher prices. (While Howard noted correctly that higher prices stem from forces beyond Australia's control, the Government is looking to support alternative fuels such as ethanol or natural gas for vehicles).

POLLS STILL POSITIVE

¶4. (C/NF) Although a Sydney Morning Herald poll released August 14 indicated 75 percent of voters are dissatisfied with the Government's response to petrol prices, it also noted that the Coalition is the preferred choice) by 20 percentage points -- to manage the economy. The poll, and a Newspoll published by The Australian newspaper August 15 showed that Howard is the clear choice for Prime Minister by almost 2 to 1 over Beazley. Although the Morning Herald poll gave Labor a 53-47 advantage in the two-party preference voting, the Newspoll (taken after the latest terrorist arrests in London) gave the Coalition the lead 51-49. A Coalition aide noted that the Coalition's poll numbers have dipped midway through the last three governments. He said the party out of power needed at least a three percent lead in the polls for the results to indicate any threat to the Government.

LABOR SEES TOUGH FIGHT

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¶5. (C/NF) Poloffs spoke to several Labor Party Members of Parliament and their aides last week about the current political situation. They understood they had an uphill struggle to defeat the Coalition in the next election and in the words of MP Bob McMullan (Protect) & they weren't there yet.⁸ Their strategy is to work with the unions to brand the new industrial relations law as unfair to the average worker (see ref B) and combine that law with rising interest rates and petrol prices to show that the average worker is not better off. In the words of Chris Bowen (Protect), another Labor MP seen as a rising star in the Party, if a voter is asked who they trust more to run the economy, the Coalition is favored 70-30 percent, but if the question asked is who do you believe cares more about the average working man, Labor wins 60-40 percent.

¶6. (C/NF) Labor Shadow Foreign Minister Kevin Rudd recently told visiting EAP DAS Davies and Charge that he believed Labor's prospects for gaining government were about fifty-fifty. Recent polls, he said, showed Labor within striking distance, which reflected a solid improvement in the party's fortunes over the past several months. On the other hand, Labor really needs to build its polling strength even further, Rudd noted, since government support generally improves during the lead-up to Australian federal elections.

COMMENT

¶7. (C/NF) All Australian elections are close, and come down to winning the marginal seats) districts where the incumbent's margin of victory was less than four percent. With Howard at the top of the ticket, Coalition members holding marginal seats have been invigorated. While Labor politicians have to feel buoyed by the concern over petrol prices and interest rates, they know they have an uphill struggle given the strength of the economy and the confidence the voters have in Howard.

¶8. (C/NF) Both sides of Parliament will need to reshuffle their front benches prior to the next election to remove

members who are not seeking re-election. Multiple coalition senior staffers confirmed that PM Howard will adjust his ministers, likely during the Christmas break. They agreed, however, that the top four -- Treasurer Peter Costello, Minister for Health and Aging Tony Abbott, Foreign Minister Alexander Downer, and Defense Minister Brendan Nelson -- were extremely unlikely to change, thus minimizing the possibility of a significant shake-up.

Owens